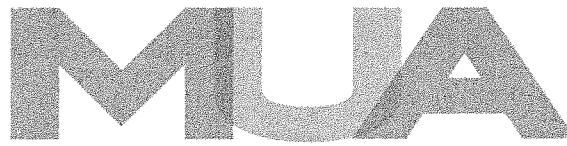


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP/BACHELOR
OF COMMERCE

BML300/BCM 217: COST ACCOUNTING

DATE: 15TH DECEMBER 2016

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. DO NOT write on this question paper.
3. This paper contains SIX (6) questions.
4. Question ONE is compulsory.
5. Answer any other THREE questions.
6. Question ONE carries 25 MARKS and the rest carry 15 MARKS each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

- a) Define marginal costing and give its limitations. (7 marks)
 b) The following data relate to Kenya Ltd for the year ended 31 December 1999.

	Sh '000'
Sales	24,000
Less: Total costs	<u>20,000</u>
Net profit	<u>4,000</u>

Fixed costs account for 40% of the total costs.

Required:

- i) Margin of safety. (3 marks)
- ii) Break-even point in sales (3 marks)
- iii) Sales required to earn profit of Sh 6,000,000. (3 marks)
- iv) In order to increase sales, the management has the following two options:
 1. To increase sales by 25% on incurring a sales promotion cost of Sh 2,500,000.
 2. To increase sales by 15% or reducing selling price by 5%. Advise the management on which option they should take. (9 marks)

QUESTION TWO

- a) Explain the advantages of centralized system of maintaining stores. (4 marks)
- b) Explain the assumptions behind the determination of Economic Order Quantity (EOQ). (5 marks)
- c) The following information is given for material Y-20.

Consumption:

Annual	360,000 units
Maximum	1,200 units/day
Minimum	800 units/day
Normal	900 units/day
Re-order period	12 - 24 days
Re-order quantity	32,000 units

Required:

- i) Re-order level. (2 marks)
- ii) Minimum stock level. (2 marks)
- iii) Maximum stock level (2 marks)

QUESTION THREE

- a) What is the basic difference between account classification method and high-low method as applied in cost estimation? (3 marks)
- b) Distinguish between the following cost accounting terminologies:
- i) Direct and indirect costs (3 marks)
 - ii) Cost centre and cost unit (3 marks)
 - iii) Joint products and by-products (3 marks)
 - iv) Period costs and product costs (3 marks)

QUESTION FOUR

- a) What are the main duties of budget committee? (4 marks)
- b) What is meant by the term "Key factor"? (1 mark)
- c) Name and briefly explain five main key factors that affect budgeting process. (10 marks)

QUESTION FIVE

- a) In the context of budgetary control explain the main functions and importance of a cash budget. (5 marks)
- b) You are in charge of making forecasts and preparing budgets. You have been supplied with cost and revenue forecasts and details of payment as follows:

1. Forecast of revenue and costs for the quarter ending 31 March 2001

	January Shs.	February Shs.	March Shs.
Direct			
Materials (purchases)	112,000	100,000	135,000
Wages	90,000	80,000	100,000
Overhead			
Production	34,000	32,000	40,000
Administration	22,000	20,000	27,000

Selling and distribution	13,000	11,000	18,000
Sales	360,000	350,000	440,000

2. Forecast of revenue and costs for the quarter ending 30 June 2001

	April Sh.	May Sh.	June Sh.
Direct			
Materials (purchases)	90,000	67,000	79,000
Wages	72,000	54,000	63,000
Overhead			
Production	45,000	36,000	40,000
Administration	22,000	25,000	27,000
Selling and distribution	13,000	11,000	16,000
Sales	350,000	360,000	360,000

Cash balance on 1 April 2001 Sh. 90,000

3. Other details

- Period of credit allowed by suppliers averages two months.
- Debenture to the value of Shs. 125,000 are being issued in May 2001 and the amount is expected to be received during the month.
- A new machine is being installed at the end of March 2001 at a cost of Sh 150,000 and payment is promised in early May 2001.
- Sales commission of 3% is payable within one month of sales.
- A dividend of Sh 100000 is to be paid in June 2001.
- There is a delay of one month in the payment of overheads. There is also a delay in payment of wages averaging a quarter of a month.
- Twenty per cent of the debtors pay cash, receiving a cash discount of 4% and 70% of debtors pay within one month and receive a cash discount of 2 ½%. The other debtors pay within two months.

Required:

A cash budget on a monthly basis from the second quarter of the year 2001.

(10 marks)

QUESTION SIX

a) Briefly differentiate the following terminologies used in cost accounting.

- Relevant range and relevant cost. (2 marks)
- Controllable costs and non-controllable cost. (2 marks)
- Perpetual inventory system and continuous inventory system. (2 marks)

iv) Profit center and cost center. (2 marks)

v) Opportunity cost and incremental cost. (2 marks)

b) A company prepares the following main budgets:

Sales budget.

Manufacturing budget.

Purchasing budget.

Selling and administration overheads budget.

Budgeted balance sheet.

Required:

Describe briefly the relationship between these budgets and the content of each.

(5 marks)

